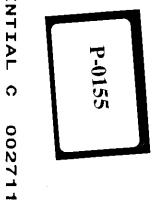
PAYMENT SYSTEMS

FEBRUARY 5, 1998

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GOVERNMENT DEPOSITION EXHIBIT 694

Outline

- Payment Systems
 - Recent Developments
 - Trends
- Role of the Associations (VISA)
 - Changes over Time
- How the Role Has Impacted the Industry
 - How We Have Suffered
- What Would We Like to See Different
- Alternatives
 - Evaluation

Payment Systems

- Developments
 - Associations have matured in the arena of acceptance mark
 - Multiple access vehicles
 - ▲ Charge
 - ▲ Credit
 - Debit
- Increasingly electronic
- ▲ Check
 ▲ Phone
- ا د دادمد د د دا
- Integration lost
 - ▲ Checks
 - ▲ Credit
 - ▲ ATM
 - ▲ Clearing house
 - ▲ POS merchants
 - ▲ Associations
- The system, taken as a whole, is inefficient

Role of the Associations

- Change over Time
 - Move from concentration on uniform acceptance to a marketing company
 - ▲ Advertising
 - ▲ Product development
 - Association decisions do not reflect the interests of the institutions that provide the bulk of the industry revenue

Role of the Associations (cont'd)

- Associations were formed to:
 - Provide merchant acceptance
 - Licensor of the acceptance mark
 - Administer liability rules between members
 - Administer risk transfer pricing (interchange)—cost-based
 - Provide authorization, clearing and settlement services
 - Provide investigative services to control counterfeit and fraud
 - Provide least-cost interchange services

Role of the Associations (cont'd)

Over Time

Member
brand
dilution

- The acceptance marks have replaced member brands—confusing the public and regulators as to who the real competitors are
 - Many consumers think VISA/MC offers the service (some banks purposely position their products as offered by VISA)
 - ▲ Regulators view VISA/MC as competitors versus the individual banks

Select member profit subsidies

- Associations are increasingly paying incentives to select members to obtain Association preference
 - ▲ This creates a form of involuntary subsidization of select member programs resulting in higher costs to the remaining members

Product competition

- Competitively developed member products are adopted by the Associations, limiting a member's ability to sustain competitive differentiation
 - ▲ World Card

Higher costs

 Scale benefits are increasingly used to further an Association agenda versus reducing member costs (spend rather than economize)

Role of the Associations (cont'd)

- Many positive results have been achieved
- Wide acceptance
- Acceptance coverage second to none—global/established
- Universal currency
- Cross-border currency exchange
- Acceptable costs
- Good transaction control
- Reasonable transaction liability rules
- Reliable service

How These Changes Have Impacted Players

- The front-end "equality" represented by the Association logos has greatly aided smaller, lesser known firms.
 - They are viewed as qualitatively identical to the more established institutions
 - They benefit most from "renting" acceptance
 - Association advertising primarily benefits smaller players
 - Association development funding is largely for their benefit
 - The governance structure gives no benefit to large contributors
- The establishment of the Association brand doesn't allow the development of other credit card brand names by Association members.

What Would We Like to See Different

- Brand-based competitive frame
- Financial and ownership stake and control
- Ubiquitous acceptance and network scale
- Broad payment functionality (card, check, chip)
- Lowest-cost processing environment
- Quality customer service—continuity
- Good merchant value proposition
- Consumer choice
- Industry prospects (all banks)

We Have at Least These Options

In working with the Associations, we would like to de-emphasize the

Expand Member Options

- Brand Management
- Product Development
- Governance

Association logo, and effect several other changes to allow greater marketing freedom for members

Further, we would like to unbundle Association services, to allow a "Pay If

Unbundle Services

- · Brand Licensing
- Processing
- Private Label

You Participate" platform (e.g., only those who want product development done by the Association will share in its cost)

Separately, the industry should look to how the national payment system
 works with a view to making.

Restructure
Payments
System

- · All Types / All Brands
- · Streamlined Processing
- Cost-Effective
- Consolidations?

works with a view to making it more efficient, and returning control of it to the banking industry

2/JMT: IS PM 01998 Cotons At rights meaned right pp N.A. CARDS More Consumer Options
More Member Competition

VISA Expand Member Options

Brand Management:

Permit members to compete more directly through promotion of their individual brand as the primary product brand

- VISA is the neutral acceptance mark
- Reposition to the back of the card
- Allow secondary positioning to the member brand
- Focus advertising and promotion on acceptance

Product Development:

Promote member product development to spur competition between competitors

- Establish optional member participation and funding in new products
- Focus product development on essential services— i.e., information exchange services vs. product features.

Governance:

Evaluate methods to balance decision-making between one-man/one-vote rules and overall contribution to the organization.



More Consumer Options

More Member Competition

VISA Unbundle Services

Brand Licensing:

Separate acceptance mark licensing from processing services—i.e.:

- an acceptance mark licensing company
- a transaction processing/switching company

Expand processing services:

Support member introduction of competing private label brands

- Provide authorization, clearing and settlement services on a contractual basis
- Administer BIN assignments within existing infrastructure, including BIN conversion to private label purposes
- Focus on delivery infrastructure without limiting private label configuration except as necessary to ensure accurate processing—minimal restrictions.

Better Costs, Better Efficiency

Rationalize Existing Payment Structure

- Assess the level of duplication in clearing and settlement processes
 - Checks
 - Credit Cards
 - ACH
 - Debit cards
 - ATM networks
- Focus on achieving these benefits
 - Cost-effective transaction processing
 - Timely payments exchange standards
 - Avoid throw-away technology investments due to obsolescence or incompatibility
 - Minimized development expense
 - Reduced management/administrative overhead
 - Reciprocal payment guarantees
 - Continued bank role in payments infrastructure

